HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC Indonesia Manufacturing PMI™

Operating conditions across Indonesia deteriorate, as output and new orders contract

Summary

August data highlighted an overall deterioration in the Indonesian manufacturing sector, as output, new orders and export business all contracted. Similarly, payroll numbers fell and at the fastest rate in the survey history.

At 48.5 in August, down from 50.7 in the previous month, the headline HSBC *Purchasing Managers' Index™ (PMI™)* fell to a 15-month low and indicated a deterioration of business conditions across Indonesia. The downward movement reflected negative contributions from four of its five sub-indices, the exception being delivery times.

New export business contracted for the third month running in August, whereas the decline in total new orders was the first recorded since May 2012. Order book volumes fell solidly and at a rate that was the strongest since April 2011. Indonesian manufacturers suggested that both foreign and domestic demand was weaker.

Subsequently, companies reduced their production levels in August for the first time since January. The rate of contraction was, however, moderate. Input buying also fell during the latest month, ending a six-month period of growth. Purchasing activity contracted at a solid pace and one that was the fastest in the survey history. Monitored firms indicating a lower quantity of purchases generally commented that this reflected lower volumes of incoming new work.

With both output and input buying contracting, stock holdings across the Indonesian manufacturing sector were depleted in August. Pre-production inventories fell solidly and at the fastest pace since April 2011. Holdings of finished goods also decreased at a solid pace and one that was the most marked in 21 months.

Subdued client demand and spare capacity resulted in lower volumes of work-in-hand (but not yet completed). Backlogs of work across the Indonesia goods-producing sector were depleted at the fastest rate since June 2012.

Workforce numbers in the Indonesian manufacturing sector fell in August for the first time in five months. The overall pace of job losses was moderate, although the fastest in the survey history. Some companies commented that voluntary leavers had not been replaced, while a few indicated that workforce numbers were reduced in tandem with lower order book volumes.

Average prices paid for raw materials and semi-manufactured goods increased in August, amid reports of higher fuel costs and the depreciation of the rupiah against the US dollar. The overall rate of cost inflation eased from July's peak, but remained robust.

Consequently, prices charged by Indonesian manufacturers were raised for a further month. Nevertheless, the rate of charge inflation eased to the slowest in the year-to-date.

Comment

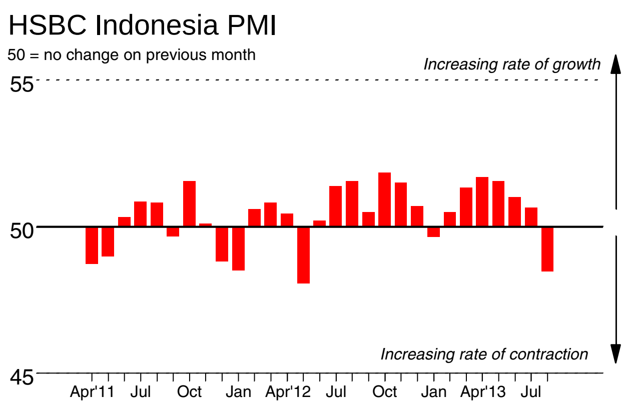
Commenting on the Indonesia Manufacturing PMI™ survey, Su Sian Lim, ASEAN Economist at HSBC said:

"Weaker demand both domestically and externally appeared to be behind the worsening in manufacturing conditions in August. This is the fourth straight month of deterioration in the PMI, and marks the lowest print since May 2012. The rise in inflation - as reflected by higher input and output prices - will likely continue to curb domestic demand in the near-term. External demand, meanwhile, will likely only improve gradually, as suggested by China's PMI reading of just above 50.0 for the same month."

Key points

- PMI hits 15-month low in August
- Production decreases in line with weaker domestic and export demand
- Employment contracts at fastest pace in survey history

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Indonesia Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Indonesian GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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Purchasing Managers' Index™ *(PMI*™*)* surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics